



OPEN MEETING AGENDA ITEM  
**Arizona Competitive Power**

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Arizona Corporation Commission  
**DOCKETED**

APR 24 2013

- Bob Stump, Chairman
- Gary Pierce, Commissioner
- Brenda Burns, Commissioner
- Susan Bitter Smith, Commissioner
- Bob Burns, Commissioner

DOCKETED BY

Re: Integrated Resource Planning (Docket No. E-00000A- 1 1-0 1 13)

The 2012 biennial Integrated Resource Planning process will come to an end at the May 1<sup>st</sup> Open Meeting when the Commission formally votes to acknowledge the Companies' Reports. The members of the Arizona Competitive Power Alliance (Alliance) would like to thank the incumbent utilities for their hard work and hospitality in hosting the meetings that led up to the report and we would like to thank all of the parties for their efforts in contributing to the reports and presenting their positions in front of the ACC.

In many ways, the IRP process is like a political campaign. Each party spends long months developing positions, meeting with stakeholders and trying to persuade decision makers of the wisdom of each party's position. Unfortunately, the IRP process is like a political campaign without an election—parties lay out their positions and on that final day... the Commission votes to "Acknowledge" the reports.

The IRP process is a critical planning tool used in most states to guide procurement decisions and capital deployment over a longer term time horizon. The planning process is critical in order for utilities to meet customer needs, cost effectively, and in accordance with the State policy goals as determined by the Commission. While the process does not result in a commission determination on specific resource procurement, it is an important opportunity for the Commission to guide the utilities on procurement policy into the future.

**The principals of resource diversity, cost effectiveness, and balance should guide the IRP**

For its part, the Alliance supports a balanced resource mix that includes lower levels of coal-fired energy and increased amounts of utility scale renewable energy and natural gas generation.

While all four scenarios reflect a large capital investment, particularly in natural gas resources, in the coming years, they differ on environmental impact, cost, fuel cost price exposure, and resource mix balance. Notably, APS highlights that there is only a 3.6% variance on cost between the scenarios on a net present value basis. This relatively small cost difference between resource scenarios frees the commission to consider some of the broader issues involved in resource planning such as environmental compliance risk,

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resource diversification, resource balance, and fuel price volatility exposure. We also note the declining renewable resource costs over the past two years and the value of harnessing Arizona resources for the benefit of Arizona consumers. While renewable resource standards have supported procurement in Arizona, the lower cost and resource diversity benefits are making these resources a prudent, economic resource portfolio choice.

## **The ACC should provide policy guidance on the utility resource plans and improve the process in the next cycle**

The Alliance encourages the Commission to provide procurement guidance because it is important for the utilities to know the Commission's procurement policy and for the market to know the resource procurement direction in the coming years to guide capital investment decision in the state.

We recognize that the current IRP process as it stands requires the Commission to merely acknowledge the utilities plans. However, Alliance members encourage the Commissioners to provide some policy guidance to the utilities and the market regarding which resource planning scenarios are preferable and most consistent with state objectives.

In the next planning cycle, the Alliance recommends that the ACC consider amending its process to allow for a formal decision that provides concrete ACC guidance on utility resource planning. A procedural change in future IRPs that provides for a formal ruling on the plans would provide valuable guidance, making the process more meaningful and productive in ensuring that the planning process is carrying out the policy of the state. Arizona Public Service, for example, did an excellent job laying out four different scenarios in which it can meet its future resource needs. Those scenarios are dramatically different, mutually exclusive, and imply contrasting cost implications and risks to consumers. The process should result in the ability of the ACC to establish policy guidance in how the utilities plan to meet their customer's needs.

## **Overreliance on coal generation is a costly liability that should be mitigated with balance among fuel types**

We are concerned about the fact that investor owned utilities have an incentive to continue investing in aging coal plants. Coal, with its high infrastructure costs and environmental risks, creates a long term environmental and capital cost liability. While resource diversification is critical for planning and mitigating over exposure to any single fuel type, many prudent utilities are looking at ways to diversify their portfolios away from coal. At a time when natural gas is inexpensive with less environmental risk and

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renewable resources are competitively priced, it makes sense to consider additional diversification and portfolio balance.

Both Arizona Public Service and Tucson Electric Power are currently engaged in transactions that maintain or increase their exposure to coal for a further 30 years or more. The Alliance believes that while coal plants may appear to be a cost effective resource, future maintenance costs and the inevitable and unquantified future environmental requirements will burden generations of Arizona consumers. We believe the ACC should establish policies for managing the coal risk and consider Arizona's future coal exposure as part of a comprehensive IRP process, as opposed to making coal resource decisions on a case by case and plant by plant basis.

In his January 11<sup>th</sup> letter to the IRP docket, Commissioner Pierce raised the issue of utility excess capacity and the difficulties of predicting demand. While parties can disagree about future capacity needs, Commissioner Pierce's letter highlights the fact that those needs are indeed difficult to accurately predict.

If Commissioners are concerned that consumers may be saddled with too much capacity, the Commission should not be approving utility proposals to invest new money in aging coal plants (e.g., Four Corners and Springerville). Instead, the Commission should instruct the incumbent utilities to rebalance their resource portfolios away from coal toward cost effective gas and renewable resources. This approach allows consumers to take advantage, of low gas prices and excess CCGT capacity at the Palo Verde hub through competitive solicitations for contracts and/or asset purchases. We believe that consumers benefit when the Commission requires the incumbent utilities to conduct RFPs and buy power from the competitive wholesale market. The Commission, however, cannot steer utilities in this direction through acknowledgments or inquiries.

## **Conclusion**

The Commission has established a working IRP process, and the parties have cooperated to evaluate, discuss and present their positions on a full range of scenarios. As we conclude the current IRP process and begin work on the next one, it's time that the Commission provide policy direction so that the parties can work to implement the Commission's long-term resource strategy.

Sincerely



Greg Patterson  
Arizona Competitive Power Alliance  
Director